

**AR57**

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**GENERAL FASTENERS INC.**

**AUDITORS' REPORT AND  
CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 1994**



**BARR SHELLEY STUART**





BARR SHELLEY STUART

CHARTERED ACCOUNTANTS • SUITE 600, 808 - 4TH AVE. S.W. • CALGARY, ALBERTA • T2P 3E8 • TELEPHONE (403) 269-1320 1-800-486-7770 • FACSIMILE (403) 269-3573

AUDITORS' REPORT

TO THE SHAREHOLDERS OF  
GENERAL FASTENERS INC.

We have audited the consolidated balance sheet of General Fasteners Inc. as at December 31, 1994 and the consolidated statements of income and retained earnings and cash flow for the thirteen month period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and the results of its operations and the changes in its financial position for the thirteen month period then ended in accordance with generally accepted accounting principles.

Calgary, Alberta  
February 28, 1995

CHARTERED ACCOUNTANTS



## GENERAL FASTENERS INC.

CONSOLIDATED BALANCE SHEET  
AS AT DECEMBER 31, 1994

	<u>1994</u>	<u>1993</u>
		(Note 1)

ASSETS

## CURRENT

Cash	\$ 97,354	11,787
Accounts receivable	3,830,150	3,547,735
Inventory	2,882,391	2,361,135
Prepaids	<u>87,167</u>	<u>42,224</u>
	<u>6,897,062</u>	<u>5,962,881</u>

## CAPITAL

(Note 2)      978,269 1,054,668

RESOURCE PROPERTY      (Note 3)      14,343 15,937

INVESTMENTS AND ADVANCES      (Note 4)      219,897 508,727

GOODWILL      (Note 5)      144,465 155,679

\$ 8,254,036 7,697,892

LIABILITIES

## CURRENT

Bank indebtedness	(Note 6)	\$ 2,025,254	2,252,336
Accounts payable		3,187,846	2,532,561
Income taxes		<u>44,214</u>	-
Current portion of obligation under capital leases		128,785	184,033
Current portion of long term debt		<u>8,899</u>	<u>8,086</u>
		<u>5,394,998</u>	<u>4,977,016</u>

OBLIGATION UNDER CAPITAL LEASES (Note 7) - 159,651

LONG TERM DEBT      (Note 8)      204,887 214,492

DEFERRED INCOME TAXES      (Note 8)      114,873 77,690  
5,714,758 5,428,849SHAREHOLDERS' EQUITY

CAPITAL STOCK	(Note 9)	626,248	626,248
RETAINED EARNINGS		<u>1,913,030</u>	<u>1,642,795</u>
		<u>2,539,278</u>	<u>2,269,043</u>
		<u>\$ 8,254,036</u>	<u>7,697,892</u>

Approved On Behalf Of The Board:

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Director

BARR SHELLEY STUART



## GENERAL FASTENERS INC.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS  
FOR THE THIRTEEN MONTH PERIOD ENDED DECEMBER 31, 1994

	<u>1994</u>	<u>1993</u> (Note 1)
SALES	\$ 26,840,931	20,734,582
COST OF SALES	<u>19,410,714</u>	<u>14,999,867</u>
GROSS MARGIN	<u>7,430,217</u>	<u>5,734,715</u>
EXPENSES		
General and administrative	6,544,269	5,223,415
Interest and bank charges	201,372	145,760
Interest on long term debt	62,466	79,968
Amortization and depletion	<u>154,196</u>	<u>157,894</u>
	<u>6,962,303</u>	<u>5,607,037</u>
INCOME BEFORE THE FOLLOWING	<u>467,914</u>	<u>127,678</u>
Proportionate share of net income of Innopak Products Ltd.	40,355	32,685
Loss on sale of resource property	<u>-</u>	<u>(13,713)</u>
	<u>40,355</u>	<u>18,972</u>
INCOME BEFORE INCOME TAXES	<u>508,269</u>	<u>146,650</u>
(INCOME TAXES) RECOVERED		
Current	(200,851)	(42,125)
Reduction due to application of prior years' losses	<u>-</u>	<u>42,125</u>
Deferred	<u>(37,183)</u>	<u>(37,690)</u>
	<u>(238,034)</u>	<u>(37,690)</u>
NET INCOME FOR THE PERIOD	270,235	108,960
RETAINED EARNINGS AT BEGINNING OF PERIOD	<u>1,642,795</u>	<u>1,533,835</u>
RETAINED EARNINGS AT END OF PERIOD	<u>\$ 1,913,030</u>	<u>1,642,795</u>
EARNINGS PER SHARE	<u>\$ 0.0081</u>	<u>0.0033</u>



## GENERAL FASTENERS INC.

CONSOLIDATED STATEMENT OF CASH FLOW  
FOR THE THIRTEEN MONTH PERIOD ENDED DECEMBER 31, 1994

	<u>1994</u>	<u>1993</u> (Note 1)
CASH PROVIDED BY (USED IN) THE FOLLOWING ACTIVITIES:		
<b>OPERATING</b>		
Net income for the period	\$ 270,235	108,960
Items not involving a current cash outlay (inflow)		
Amortization and depletion	154,196	157,894
Proportionate share of net income of Innopak Products Ltd.	(40,355)	(32,685)
Loss on sale of resource property	-	13,713
Deferred income taxes	<u>37,183</u>	<u>37,690</u>
	<u>421,259</u>	<u>285,572</u>
Net change in non cash working capital balances related to operations	(Note 10) (149,115)	(669,885)
	<u>272,144</u>	<u>(384,313)</u>
<b>FINANCING</b>		
Increase in obligation under capital leases	-	55,251
Reduction in obligation under capital leases	(214,899)	(153,400)
Reduction in long term debt	<u>(8,792)</u>	<u>(35,404)</u>
	<u>(223,691)</u>	<u>(133,553)</u>
<b>INVESTING</b>		
Proceeds from sale of marketable securities	-	28,560
Purchase of capital assets	(66,989)	(128,322)
Proceeds from sale of capital assets	2,000	5,244
Proceeds from sale of resource property	-	13,529
Reduction in investments and advances	297,185	11,288
Dividends received	<u>32,000</u>	<u>20,000</u>
	<u>264,196</u>	<u>(49,701)</u>
INCREASE (DECREASE) IN CASH	312,649	(567,567)
CASH DEFICIENCY AT BEGINNING OF PERIOD	<u>(2,240,549)</u>	<u>(1,672,982)</u>
CASH DEFICIENCY AT END OF PERIOD	\$ <u>(1,927,900)</u>	<u>(2,240,549)</u>
CASH FLOW PER SHARE	\$ 0.009	(0.017)

Cash deficiency is comprised of cash and bank indebtedness.



GENERAL FASTENERS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 1994

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

a) Year end

The Company changed its year end from November 30 to December 31 in 1994; therefore these financial statements include the results of operations and changes in financial position for thirteen months.

The 1993 comparative figures are for the year ended November 30, 1993.

b) Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries:

General Fasteners Ltd.  
General Fasteners (Sask.) Ltd.  
Walker Investments Ltd.

c) Inventory

Inventory has been recorded at the lower of cost and net realizable value.

d) Capital assets

Capital assets are stated at cost.

Amortization is recorded on a declining balance basis at the following annual rates:

Automotive and forklifts	30%
Furniture, fixtures and office equipment	20%
Advertising equipment	20%
Tools and equipment	20%
Computer equipment	10%
Building	5%

Leasehold improvements are amortized on a straight line basis over five years.

e) Goodwill

Goodwill is amortized on a straight line basis over 20 years.

f) Resource property

The oil and gas property is recorded at cost and is being depleted on a declining balance basis at a rate of 10% per annum, which approximates the estimated life of the reserves.



## GENERAL FASTENERS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 1994

## NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

## g) Investment in affiliated company

The Company holds a 40% interest in Innopak Products Ltd. which is accounted for using the equity method. Under the equity method, the original cost of the investment is adjusted for the Company's share of income or losses and dividends.

## NOTE 2 CAPITAL ASSETS

		1994		1993
		Accumulated Cost	Amortization	Net Book Value
<u>Assets owned</u>				
Automotive and forklifts	\$ 238,069	182,662	55,407	54,637
Furniture, fixtures and office equipment	585,917	435,960	149,957	170,630
Advertising equipment	65,573	45,824	19,749	28,936
Tools and equipment	37,654	28,999	8,655	9,438
Computer equipment	184,654	144,301	40,353	21,587
Building	269,825	104,106	165,719	175,292
Leasehold improvements	425,146	404,315	20,831	24,564
Land	86,000	-	86,000	86,000
	1,892,838	1,346,167	546,671	571,084
<u>Assets under capital lease</u>				
Computer equipment	736,004	304,406	431,598	483,584
	<u>\$ 2,628,842</u>	<u>1,650,573</u>	<u>978,269</u>	<u>1,054,668</u>

## NOTE 3 RESOURCE PROPERTY

		1994		1993
		Accumulated Cost	Depletion	Net Book Value
Oil and gas property	\$ 43,648	29,305	14,343	15,937

## NOTE 4 INVESTMENTS AND ADVANCES

		1994	1993
Investment in Innopak Products Ltd.		\$ 125,278	116,923
Other investments			12,480
Advances to (from) directors and affiliated companies subject to control or significant influence by certain directors of the Company:			
General Fasteners Hamilton Ltd.		(1,995)	
Marfac Industries Ltd.		80,000	319,732
Loans receivable from directors, officers and employees.		14,619	61,587
		<u>\$ 219,897</u>	<u>508,727</u>



## GENERAL FASTENERS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 1994

## NOTE 4 INVESTMENTS AND ADVANCES (Continued)

The advances to affiliated companies are unsecured, non interest bearing and without fixed terms of repayment. Advances to directors, officers and employees bear interest at bank prime lending rate.

## NOTE 5 GOODWILL

	1994	1993		
	Accumulated Cost	Net Book Amortization	Value	Net Book Value
Goodwill	<u>\$ 207,025</u>	62,560	144,465	<u>155,679</u>

## NOTE 6 BANK INDEBTEDNESS

	1994	1993
Bank loan	\$ 1,695,000	2,030,000
Cheques issued in excess of funds on deposit	<u>330,254</u>	<u>222,336</u>
	<u>\$ 2,025,254</u>	<u>2,252,336</u>

The bank loan is payable on demand, bears interest at bank prime plus 1 1/2% per annum and is secured by a general security agreement including a general assignment of book debts and inventory and a floating charge debenture covering all assets of the Company.

## NOTE 7 OBLIGATION UNDER CAPITAL LEASES

Minimum lease payments	\$ 138,544
Less amount representing interest and executory costs	<u>9,759</u>
Present value of minimum lease payments	128,785
Less current portion	128,785
	\$ -

## NOTE 8 LONG TERM DEBT

	1994	1993
The mortgage is payable in monthly instalments of \$2,293 including interest at 8.875% per annum, maturing November, 1997, (secured by land and building)	\$ 213,786	222,578
Less current portion	<u>8,899</u>	<u>8,086</u>
	<u>\$ 204,887</u>	<u>214,492</u>



## GENERAL FASTENERS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 1994

## NOTE 8 LONG TERM DEBT (Continued)

Annual principal repayments required to maturity are as follows:

1995	\$ 8,899
1996	9,721
1997	<u>195,166</u>
	<u>\$ 213,786</u>

## NOTE 9 CAPITAL STOCK

The Company is incorporated under the jurisdiction of the Alberta Business Corporations Act.

Authorized capital

Unlimited number of voting common shares

	<u>1994</u>	<u>1993</u>
Issued		
33,425,413 shares	\$ 626,248	<u>626,248</u>

As at December 31, 1994 there were outstanding stock options to certain directors of the Company, aggregating 450,000 shares at \$0.25 per share. The options expire March 15, 1995.

## NOTE 10 NET CHANGE IN NON CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS

	<u>1994</u>	<u>1993</u>
Accounts receivable	\$ (282,415)	(118,682)
Inventory	(521,256)	126,982
Prepaids	(44,943)	85,988
Accounts payable	655,285	(764,173)
Income taxes	<u>44,214</u>	-
	<u>\$ (149,115)</u>	<u>(669,885)</u>

## NOTE 11 COMMITMENTS

The Company has entered into various operating lease commitments for premises requiring annual payments to expiration as follows:

1995	\$ 316,745
1996	169,351
1997	148,546
1998	24,780
1999	24,780



GENERAL FASTENERS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 1994

NOTE 12 RELATED PARTY TRANSACTIONS

The Company made payments to related companies for the following:

	<u>1994</u>	<u>1993</u>
Management fees	\$ 278,000	51,000
Product purchases at normal commercial terms	212,100	181,600
Vehicle and equipment leases	2,950	16,700

NOTE 13 SEGMENTED INFORMATION

The Corporation considers that its operations fall principally into one product class, packaging and materials handling products.

Operations are considered to be in one geographical area, Western Canada.

NOTE 14 COMPARATIVE FIGURES

Certain of the 1993 comparative figures have been reclassified to conform with the current year's presentation.



